



**Auditor of State  
Betty Montgomery**



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Edgewood City School District  
Butler County  
3500 Busenbark Road  
Trenton, Ohio 45067

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Edgewood City School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Edgewood City School District, Butler County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

May 19, 2005

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The management's discussion and analysis of the Edgewood City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$465,007 which represents a 7.39% increase from 2003.
- General revenues accounted for \$26,250,074 in revenue or 90.06% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,897,123 or 9.94% of total revenues of \$29,147,197.
- The District had \$28,682,190 in expenses related to governmental activities; only \$2,897,123 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,250,074 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$24,283,089 in revenues and other financing sources and \$24,618,372 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$335,283 from 413,160 to \$77,877.
- The District's other major governmental fund, the debt service fund, had \$2,376,141 in revenues and \$2,142,817 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$233,324 from \$2,541,766 to \$2,775,090.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-45 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	<b>Net Assets</b>	
	Governmental Activities 2004	Governmental Activities 2003
<b><u>Assets</u></b>		
Current and other assets	\$ 15,804,494	\$ 14,994,318
Capital assets	<u>27,715,588</u>	<u>28,003,449</u>
Total assets	<u>43,520,082</u>	<u>42,997,767</u>
<b><u>Liabilities</u></b>		
Current liabilities	12,378,694	11,569,872
Long-term liabilities	<u>24,388,792</u>	<u>25,140,306</u>
Total liabilities	<u>36,767,486</u>	<u>36,710,178</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,802,829	3,958,691
Restricted	3,208,061	2,910,736
Unrestricted (deficit)	<u>(1,258,294)</u>	<u>(581,838)</u>
Total net assets	<u>\$ 6,752,596</u>	<u>\$ 6,287,589</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$6,752,596.

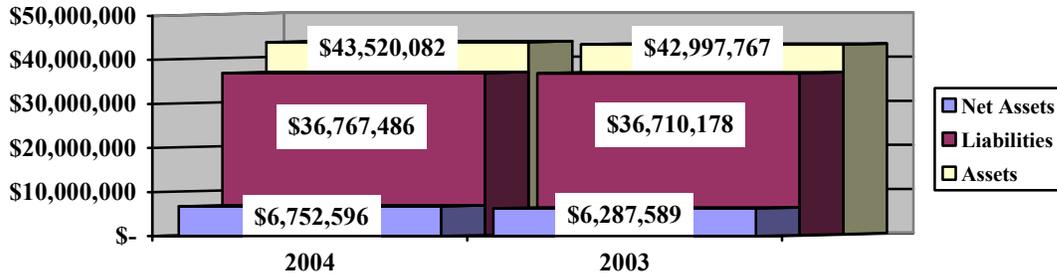
At year-end, capital assets represented 63.68% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$4,802,829. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,208,061, represents resources that are subject to external restriction on how they may be used. The remaining deficit balance of unrestricted net assets of \$1,258,294 may be used to meet the District's ongoing obligations to the students and creditors.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Governmental Activities**



The table below shows the change in net assets for fiscal years 2004 and 2003.

**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,388,393	\$ 1,244,811
Operating grants and contributions	1,299,329	1,147,094
Capital grants and contributions	209,401	61,060
General revenues:		
Property taxes	11,064,314	12,472,973
Grants and entitlements	13,477,833	12,493,952
Investment earnings	44,232	68,713
Payment in lieu of taxes	1,469,825	893,051
Other	<u>193,870</u>	<u>178,840</u>
Total revenues	<u>29,147,197</u>	<u>28,560,494</u>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 12,448,226	\$ 11,061,211
Special	2,683,755	2,754,960
Other	15,687	-
Support services:		
Pupil	1,927,880	1,271,586
Instructional staff	2,225,484	1,953,564
Board of education	62,972	100,459
Administration	1,982,226	1,797,326
Fiscal	490,903	451,525
Business	163,758	139,142
Operations and maintenance	2,648,031	1,992,555
Pupil transportation	1,052,087	966,225
Central	173,575	166,526
Operations of non-instructional services	35,359	28,842
Food service operations	1,149,612	1,077,162
Extracurricular activities	588,222	463,187
Interest and fiscal charges	<u>1,034,413</u>	<u>1,078,461</u>
Total expenses	<u>28,682,190</u>	<u>25,302,731</u>
Change in net assets	465,007	3,257,763
Net assets at beginning of year	<u>6,287,589</u>	<u>3,029,826</u>
Net assets at end of year	<u>\$ 6,752,596</u>	<u>\$ 6,287,589</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$465,007. Total governmental expenses of \$28,682,190 were offset by program revenues of \$2,897,123 and general revenues of \$26,250,074. Program revenues supported 10.10% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 89.24% of total governmental revenue. Real estate property is reappraised every six years.

Property tax revenues decreased due to the accruing and reversing entries in fiscal years 2003 and 2004. Grant and entitlement revenues increased primarily because of an increase in state basic aid. Regular instruction expenditures increased primarily due to salary and wage increases and the corresponding increase in fringe benefits. Pupil support service expenditures increased primarily because of salary and wage increases and the consequent increase in fringe benefits. Operation and maintenance support service expenditures increased primarily due to an increase in purchased services related to the H.B.264 project initiated in fiscal 2004.

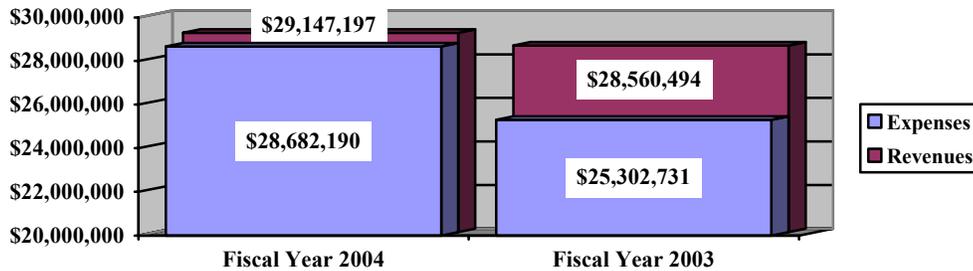
**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The District's financial condition has improved moderately in recent years, primarily due to increased financial support from the state. Future increases in state funding are projected to be more inflationary rather than the significant increases seen over the past several years. The District is projecting a decrease in state funding for future years.

This graph presents the District's governmental activities revenues and expenses for fiscal years 2004 and 2003.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities**

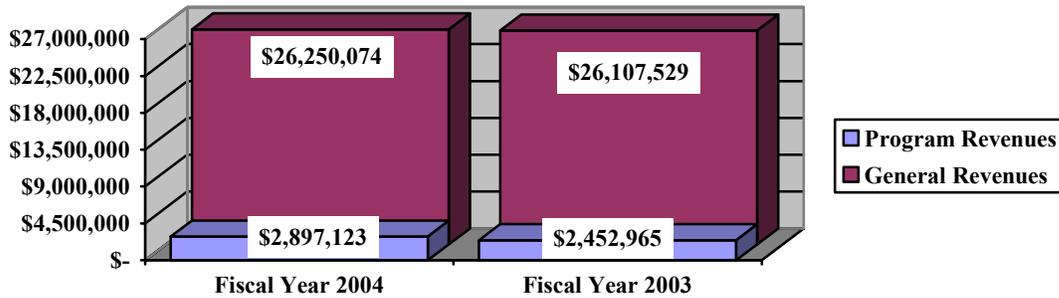
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
<b>Program expenses</b>				
Instruction:				
Regular	\$ 12,448,226	\$ 11,710,162	\$ 11,061,211	\$ 10,731,922
Special	2,683,755	2,515,352	2,754,960	2,193,145
Other	15,687	15,687	-	-
Support services:				
Pupil	1,927,880	1,552,842	1,271,586	1,241,499
Instructional staff	2,225,484	1,983,508	1,953,564	1,756,675
Board of education	62,972	62,972	100,459	100,459
Administration	1,982,226	1,957,960	1,797,326	1,679,170
Fiscal	490,903	490,903	451,525	451,525
Business	163,758	163,758	139,142	139,142
Operations and maintenance	2,648,031	2,630,492	1,992,555	1,975,539
Pupil transportation	1,052,087	1,049,162	966,225	957,661
Central	173,575	146,335	166,526	133,551
Operation of non-instructional services	35,359	29,509	28,842	25,190
Food service operations	1,149,612	(23,856)	1,077,162	15,703
Extracurricular activities	588,222	465,868	463,187	370,124
Interest and fiscal charges	1,034,413	1,034,413	1,078,461	1,078,461
<b>Total</b>	<u>\$ 28,682,190</u>	<u>\$ 25,785,067</u>	<u>\$ 25,302,731</u>	<u>\$ 22,849,766</u>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The dependence upon tax and other general revenues for governmental activities is apparent, 94.02% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.89%. The District's taxpayers, as a whole, are by far the primary support for District's students. The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

**Governmental Activities - General and Program Revenues**

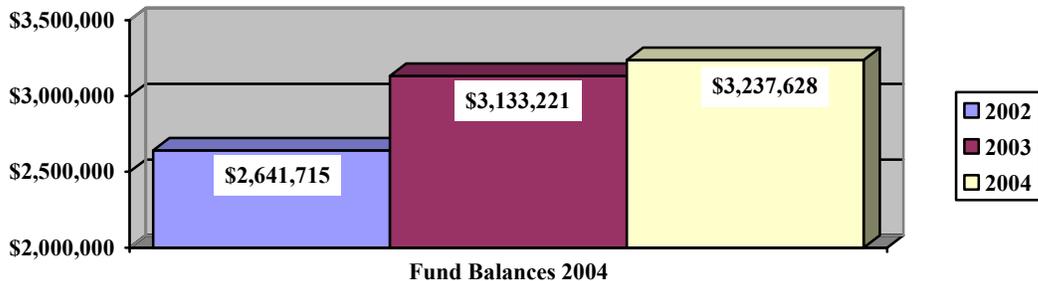


**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,237,628, which is higher than last year's total of \$3,133,221. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 77,877	\$ 413,160	\$ (335,283)	(81.15) %
Debt service	2,775,090	2,541,766	233,324	9.18 %
Other Governmental	384,661	178,295	206,366	115.74 %
Total	<u>\$ 3,237,628</u>	<u>\$ 3,133,221</u>	<u>\$ 104,407</u>	3.33 %

**Governmental Activities - Fund Balance**



**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***General Fund***

The District's general fund balance decreased \$335,283. The decrease in fund balance can be attributed to expenditures increasing at 13.41% and revenues only increasing 3.11%. Other revenue increased \$490,596 or 46.54% due to an increase in payments in lieu of taxes. Support services expenditures increased \$1,366,957 or 16.00% due to salary and benefit increases during the year. All other revenue and expenditures remained comparable to 2003. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 9,071,684	\$ 9,804,965	\$ (733,281)	(7.48) %
Tuition	70,752	61,101	9,651	15.80 %
Earnings on investments	44,062	62,025	(17,963)	(28.96) %
Intergovernmental	13,100,341	12,130,333	970,008	8.00 %
Other revenues	<u>1,544,750</u>	<u>1,054,154</u>	<u>490,596</u>	46.54 %
Total	<u>\$ 23,831,589</u>	<u>\$ 23,112,578</u>	<u>\$ 719,011</u>	3.11 %
<b><u>Expenditures</u></b>				
Instruction	\$ 13,739,413	\$ 12,666,092	\$ 1,073,321	8.47 %
Support services	9,911,188	8,544,231	1,366,957	16.00 %
Operation of non-instructional services	25,054	24,038	1,016	4.23 %
Extracurricular activities	448,318	418,281	30,037	7.18 %
Capital outlay	439,000	-	439,000	100.00 %
Debt service	<u>55,399</u>	<u>55,399</u>	<u>-</u>	- %
Total	<u>\$ 24,618,372</u>	<u>\$ 21,708,041</u>	<u>\$ 2,910,331</u>	13.41 %

***Debt Service Fund***

The District's debt service fund, fund balance increased by \$233,324. The District was able to increase the debt service fund balance even though property tax revenue decreased \$528,035.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$23,846,704, which was higher than the original budgeted revenues estimate of \$23,065,372. Actual revenues and other financing sources for fiscal 2004 was \$24,348,634. This represents a \$501,930 increase over final budgeted revenues. This increase is primarily due to conservative earnings estimates in the final budgeted amounts.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$24,587,241 were higher than the original budgeted appropriations estimate of \$23,013,225. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$24,022,592, which was \$564,649 less than the final budget appropriations.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2004, the District had \$27,715,588 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 183,689	\$ 183,689
Land improvements	440,336	394,910
Building and improvements	26,040,594	26,441,107
Furniture and equipment	365,025	308,386
Vehicles	<u>685,944</u>	<u>675,357</u>
<b>Total</b>	<b><u>\$ 27,715,588</u></b>	<b><u>\$ 28,003,449</u></b>

The overall decrease in capital assets of \$287,861 is primarily due to depreciation expense of \$1,156,897 exceeding capital outlays of \$869,036 in fiscal 2004.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2004, the District had \$22,858,576 in general obligation bonds outstanding. Of this total, \$1,155,000 is due within one year and \$21,703,576 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
	General obligation bonds:	
Improvement	\$ 16,884,743	\$ 17,409,743
Refunding	<u>5,973,833</u>	<u>6,528,833</u>
<b>Total</b>	<b><u>\$ 22,858,576</u></b>	<b><u>\$ 23,938,576</u></b>

At June 30, 2004, the District's overall legal debt margin was \$12,581,799 with an unvoted debt margin of \$362,948.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Current Financial Related Activities**

As the preceding information shows, the District relies heavily upon grants and entitlements, property taxes and state funding. An increase in property tax revenue is expected in fiscal year 2005 due to the increased tax valuations caused by the triennial valuation update and building growth. This additional tax revenue, along with budget cuts and the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the district is not without challenges.

The first challenge is the passage of an operating levy in 2005. The district has placed four 6.9 mill levies in recent months on the ballot and has been defeated each time. The District is making the necessary cuts to continue to operate with a positive cash balance. If a new operating levy is not successful in 2005, the District will be in a spending deficit in early fiscal year 2007. The District will then have to make deeper cuts to make up this shortfall.

Enrollment continues to increase for the District creating yet another tough challenge. Enrollment increases are projected of at least 100 students in the 04-05 school years. Increases are projected in FY06-09 of at least 75 students per year. These increases are impacting the capacity of our current school buildings. If these increases continue, the District will be faced with asking the voters to approve a bond levy for the building of a new elementary school. And again, with another building the District will face challenges with more operating expenses to pass to the voters.

The last and most concerning challenge is state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth towards school districts with low property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its opinion regarding the state's school funding plan and granted a motion for reconsideration on November 2, 2001. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

The District does not anticipate a significant growth in state revenue. The concern is that, to meet requirements of the court, the state may require redistribution of commercial and industrial property tax. With approximately eight percent of taxes paid for the District coming from businesses and industry, this could have an impact on the residential taxpayers.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Randy Bertram, Treasurer, Edgewood City School District, 3500 Busenbark Road, Trenton, Ohio, 45067-9798.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 4,762,531
Receivables:	
Taxes . . . . .	10,939,129
Accounts . . . . .	321
Intergovernmental . . . . .	54,293
Accrued interest . . . . .	3,876
Prepayments . . . . .	8,746
Materials and supplies inventory. . . . .	35,598
Capital assets:	
Land . . . . .	183,689
Depreciable capital assets, net . . . . .	27,531,899
Capital assets, net. . . . .	<u>27,715,588</u>
 Total assets . . . . .	 <u>43,520,082</u>
<b>Liabilities:</b>	
Accounts payable . . . . .	114,529
Accrued wages and benefits . . . . .	2,252,328
Pension obligation payable. . . . .	654,491
Intergovernmental payable . . . . .	200,042
Deferred revenue . . . . .	9,075,345
Accrued interest payable . . . . .	81,959
Long-term liabilities:	
Due within one year. . . . .	1,312,212
Due within more than one year . . . . .	23,076,580
Total liabilities . . . . .	<u>36,767,486</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,802,829
Restricted for:	
Capital projects . . . . .	236,535
Debt service. . . . .	2,861,870
Other purposes . . . . .	109,656
Unrestricted (deficit). . . . .	<u>(1,258,294)</u>
Total net assets. . . . .	<u>\$ 6,752,596</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 12,448,226	\$ 399,676	\$ 128,987	\$ 209,401	\$ (11,710,162)
Special . . . . .	2,683,755	-	168,403	-	(2,515,352)
Other . . . . .	15,687	-	-	-	(15,687)
Support services:					
Pupil . . . . .	1,927,880	4,051	370,987	-	(1,552,842)
Instructional staff . . . . .	2,225,484	15,356	226,620	-	(1,983,508)
Board of education . . . . .	62,972	-	-	-	(62,972)
Administration . . . . .	1,982,226	22,992	1,274	-	(1,957,960)
Fiscal . . . . .	490,903	-	-	-	(490,903)
Business . . . . .	163,758	-	-	-	(163,758)
Operations and maintenance . . . . .	2,648,031	14,077	3,462	-	(2,630,492)
Pupil transportation . . . . .	1,052,087	2,925	-	-	(1,049,162)
Central . . . . .	173,575	-	27,240	-	(146,335)
Operation of non-instructional services . . . . .	35,359	-	5,850	-	(29,509)
Food service operations . . . . .	1,149,612	806,962	366,506	-	23,856
Extracurricular activities . . . . .	588,222	122,354	-	-	(465,868)
Interest and fiscal charges . . . . .	1,034,413	-	-	-	(1,034,413)
<b>Total governmental activities . . . . .</b>	<b>\$ 28,682,190</b>	<b>\$ 1,388,393</b>	<b>\$ 1,299,329</b>	<b>\$ 209,401</b>	<b>(25,785,067)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	9,066,785
Debt service . . . . .	1,997,529
Grants and entitlements not restricted	
to specific programs . . . . .	13,477,833
Investment earnings . . . . .	44,232
Payment in lieu of taxes . . . . .	1,469,825
Miscellaneous . . . . .	193,870
<b>Total general revenues . . . . .</b>	<b>26,250,074</b>
Change in net assets . . . . .	465,007
<b>Net assets at beginning of year . . . . .</b>	<b>6,287,589</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 6,752,596</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 1,960,207	\$ 1,987,222	\$ 691,879	\$ 4,639,308
Receivables:				
Taxes . . . . .	9,078,796	1,860,333	-	10,939,129
Accounts . . . . .	321	-	-	321
Intergovernmental . . . . .	-	-	54,293	54,293
Accrued interest . . . . .	3,876	-	-	3,876
Interfund loans . . . . .	177,005	-	-	177,005
Prepayments . . . . .	8,746	-	-	8,746
Materials and supplies inventory . . . . .	-	-	35,598	35,598
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	123,223	-	-	123,223
<b>Total assets . . . . .</b>	<u>\$ 11,352,174</u>	<u>\$ 3,847,555</u>	<u>\$ 781,770</u>	<u>\$ 15,981,499</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 56,155	\$ -	\$ 58,374	\$ 114,529
Accrued wages and benefits . . . . .	2,141,153	-	111,175	2,252,328
Compensated absences payable . . . . .	52,764	-	-	52,764
Pension obligation payable . . . . .	390,726	-	20,486	411,212
Intergovernmental payable . . . . .	190,560	-	9,482	200,042
Interfund loan payable . . . . .	-	-	177,005	177,005
Deferred revenue . . . . .	8,442,939	1,072,465	20,587	9,535,991
<b>Total liabilities . . . . .</b>	<u>11,274,297</u>	<u>1,072,465</u>	<u>397,109</u>	<u>12,743,871</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	114,530	-	53,355	167,885
Reserved for BWC refunds . . . . .	123,223	-	-	123,223
Reserved for materials and supplies inventory . . . . .	-	-	35,598	35,598
Reserved for property tax unavailable for appropriation . . . . .	635,857	787,868	-	1,423,725
Reserved for debt service . . . . .	-	1,987,222	-	1,987,222
Reserved for prepayments . . . . .	8,746	-	-	8,746
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(804,479)	-	-	(804,479)
Special revenue funds . . . . .	-	-	99,661	99,661
Capital projects funds . . . . .	-	-	196,047	196,047
<b>Total fund balances . . . . .</b>	<u>77,877</u>	<u>2,775,090</u>	<u>384,661</u>	<u>3,237,628</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 11,352,174</u>	<u>\$ 3,847,555</u>	<u>\$ 781,770</u>	<u>\$ 15,981,499</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$	3,237,628
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			27,715,588
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	440,059	
Intergovernmental revenue		20,587	
Total			460,646
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		16,884,743	
Refunding bonds		5,973,833	
Capital lease obligation		54,183	
Lease purchase agreement		439,000	
Compensated absences		984,269	
Pension obligation payable		243,279	
Accrued interest payable		81,959	
Total			(24,661,266)
<b>Net assets of governmental activities</b>		\$	6,752,596

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 9,071,684	\$ 1,998,649	\$ -	\$ 11,070,333
Tuition . . . . .	70,752	-	-	70,752
Transportation fees . . . . .	2,925	-	-	2,925
Earnings on investments . . . . .	44,062	-	170	44,232
Charges for services . . . . .	-	-	806,962	806,962
Extracurricular . . . . .	1,500	-	250,798	252,298
Classroom materials and fees . . . . .	-	-	206,202	206,202
Other local revenues . . . . .	70,500	-	389,171	459,671
Payment in lieu of taxes . . . . .	1,469,825	-	-	1,469,825
Intergovernmental - State . . . . .	13,007,126	377,492	169,763	13,554,381
Intergovernmental - Federal . . . . .	93,215	-	1,153,644	1,246,859
Total revenue . . . . .	<u>23,831,589</u>	<u>2,376,141</u>	<u>2,976,710</u>	<u>29,184,440</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	11,235,424	-	457,000	11,692,424
Special . . . . .	2,488,302	-	204,387	2,692,689
Other . . . . .	15,687	-	-	15,687
Support Services:				
Pupil . . . . .	1,489,234	-	434,836	1,924,070
Instructional staff . . . . .	1,941,325	-	276,215	2,217,540
Board of education . . . . .	62,972	-	-	62,972
Administration . . . . .	1,934,634	-	43,494	1,978,128
Fiscal . . . . .	461,600	28,324	-	489,924
Business . . . . .	162,555	-	-	162,555
Operations and maintenance . . . . .	2,652,602	-	44,481	2,697,083
Pupil transportation . . . . .	1,069,033	-	-	1,069,033
Central . . . . .	137,233	-	35,802	173,035
Operation of non-instructional services . . . . .	25,054	-	10,273	35,327
Food service operations . . . . .	-	-	1,149,735	1,149,735
Extracurricular activities . . . . .	448,318	-	109,630	557,948
Facilities acquisition and construction . . . . .	-	-	14,273	14,273
Capital outlay . . . . .	439,000	-	-	439,000
Debt service:				
Principal retirement . . . . .	51,999	1,080,000	-	1,131,999
Interest and fiscal charges . . . . .	3,400	1,034,493	-	1,037,893
Total expenditures . . . . .	<u>24,618,372</u>	<u>2,142,817</u>	<u>2,780,126</u>	<u>29,541,315</u>
Excess of revenues over (under) expenditures . . . . .	<u>(786,783)</u>	<u>233,324</u>	<u>196,584</u>	<u>(356,875)</u>
<b>Other financing sources:</b>				
Proceeds from lease purchase agreement . . . . .	439,000	-	-	439,000
Proceeds from sale of capital assets . . . . .	12,500	-	-	12,500
Total other financing sources . . . . .	<u>451,500</u>	<u>-</u>	<u>-</u>	<u>451,500</u>
Net change in fund balances . . . . .	(335,283)	233,324	196,584	94,625
<b>Fund balances at beginning of year . . . . .</b>	<b>413,160</b>	<b>2,541,766</b>	<b>178,295</b>	<b>3,133,221</b>
<b>Increase in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>9,782</b>	<b>9,782</b>
<b>Fund balances at end of year . . . . .</b>	<u><b>\$ 77,877</b></u>	<u><b>\$ 2,775,090</b></u>	<u><b>\$ 384,661</b></u>	<u><b>\$ 3,237,628</b></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	94,625
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$869,036) exceeds depreciation expense (\$1,156,897) in the current period.		(287,861)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		9,782
Proceeds of lease purchase agreements are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets		(439,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(49,743)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		1,131,999
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		3,480
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		1,725
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>465,007</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 8,994,562	\$ 9,299,251	\$ 9,494,982	\$ 195,731
Tuition. . . . .	67,023	69,293	70,752	1,459
Transportation fees. . . . .	2,678	2,769	2,827	58
Earnings on investments. . . . .	41,372	42,774	43,674	900
Extracurricular. . . . .	1,421	1,469	1,500	31
Other local revenues. . . . .	1,457,904	1,507,290	1,539,016	31,726
Intergovernmental - State . . . . .	12,321,604	12,738,993	13,007,126	268,133
Intergovernmental - Federal. . . . .	88,302	91,293	93,215	1,922
Total revenue . . . . .	<u>22,974,866</u>	<u>23,753,132</u>	<u>24,253,092</u>	<u>499,960</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	10,748,584	11,483,747	11,220,021	263,726
Special. . . . .	2,330,155	2,489,528	2,432,356	57,172
Other. . . . .	15,110	16,144	15,773	371
Support Services:				
Pupil. . . . .	1,355,243	1,447,936	1,414,684	33,252
Instructional staff . . . . .	1,815,661	1,939,845	1,895,296	44,549
Board of education . . . . .	56,232	60,078	58,698	1,380
Administration. . . . .	1,834,581	1,960,059	1,915,046	45,013
Fiscal . . . . .	435,248	465,017	454,338	10,679
Business . . . . .	152,850	163,304	159,554	3,750
Operations and maintenance. . . . .	2,501,113	2,672,179	2,610,812	61,367
Pupil transportation . . . . .	1,006,989	1,075,863	1,051,156	24,707
Central. . . . .	138,573	148,051	144,651	3,400
Operation of non-instructional services . . . . .	24,361	26,028	25,430	598
Extracurricular activities. . . . .	428,958	458,297	447,772	10,525
Total expenditures . . . . .	<u>22,843,658</u>	<u>24,406,076</u>	<u>23,845,587</u>	<u>560,489</u>
Excess of revenues over (under) expenditures. . . . .	<u>131,208</u>	<u>(652,944)</u>	<u>407,505</u>	<u>1,060,449</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	1,200	1,241	1,267	26
Advances in. . . . .	77,465	80,089	81,775	1,686
Advances (out) . . . . .	(169,567)	(181,165)	(177,005)	4,160
Proceeds from sale of capital assets. . . . .	11,841	12,242	12,500	258
Total other financing sources (uses) . . . . .	<u>(79,061)</u>	<u>(87,593)</u>	<u>(81,463)</u>	<u>6,130</u>
Net change in fund balance . . . . .	52,147	(740,537)	326,042	1,066,579
<b>Fund balance at beginning of year . . . . .</b>	1,519,889	1,519,889	1,519,889	-
<b>Prior year encumbrances appropriated . . . . .</b>	106,670	106,670	106,670	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,678,706</u>	<u>\$ 886,022</u>	<u>\$ 1,952,601</u>	<u>\$ 1,066,579</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$ 7,244	\$ 35,617
Total assets . . . . .	7,244	\$ 35,617
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 1,119
Due to students . . . . .	-	34,498
Total liabilities . . . . .	-	\$ 35,617
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	7,244	
Total net assets . . . . .	\$ 7,244	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions . . . . .	\$ 3,546
Total additions . . . . .	3,546
<b>Deductions:</b>	
Scholarships awarded . . . . .	7,149
Change in net assets . . . . .	(3,603)
<b>Net assets at beginning of year . . . . .</b>	<b>10,847</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 7,244</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Edgewood City School District (the "District") was formed on February 14, 1968 with the consolidation of Trenton City School District and Shiloh Local School District. Today, the District operates under current standards prescribed by the Ohio State Board of Education, as provided in division (D) of Section 3301.07, and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities, staffed by 127 non-certified personnel and 251 certified full-time teaching and administrative personnel, who provide services to approximately 3,531 students and other community members.

The District ranks as the 125<sup>th</sup> largest by enrollment among the 613 public school districts in the state. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization, or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

Southwest Ohio Computer Association (SWOCA)

SWOCA is a jointly governed organization among a three-county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of the member districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge, dependent upon the software package utilized.

The governing board of SWOCA is comprised of the superintendent of each of the member districts, plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained from K. Michael Crumley, who serves as Director, at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Butler Technology & Career Development Schools

The Technology & Career Development Schools is a vocational school district, and is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The Technology & Career Development School accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 12.B. for additional information.

**B. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**D. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District has no proprietary funds.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - This fund is used to account for the accumulation of resources and payment of general obligation bond and note principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

The other governmental funds of the District account for food service operations and for grants and other resources whose use is restricted to a particular purpose.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Butler County Budget Commission for tax rate determination.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the special cost center by fund, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2004.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2004.

Investment earnings are assigned to the general fund and other funds authorized by Ohio statute or other legal provision. The following fund was credited with more interest revenue than would have been received based upon its share of the District’s investments:

	<u>Interest Actually Received</u>	<u>Interest Bond upon Share of Investments</u>	<u>Interest Assigned from Other Funds</u>
General	<u>\$ 44,062</u>	<u>\$ 18,761</u>	<u>\$ 25,301</u>

For presentation on the basic financial statements, investments of the cash management pool are considered to be cash equivalents.

An analysis of the District’s investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the statement of activities and the purchase method on the governmental fund statements.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two-thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the financial statement date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service or any age with 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, property taxes unavailable for appropriation and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds. See Note 17 for details.

**Q. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and are eliminated on the Statement of Activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 38,184
Title VI-B	36,413
Title I	32,118
Title VI	140
Class Reduction	11,182

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Cash on Hand:* At fiscal year-end, the District had \$15 in undeposited cash which is included on the balance sheet as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

*Deposits:* At fiscal year-end, the carrying amount of the District's deposits was \$508,625 and the bank balance was \$609,699. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$509,699 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form. The District had \$4,296,752 invested in STAR Ohio at June 30, 2004.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

A reconciliation between the classifications of cash and investments including cash with fiscal agent on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
Basic Financial Statements	\$ 4,805,392	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(4,296,752)	4,296,752
Cash on hand	(15)	-
GASB Statement No. 3	\$ 508,625	\$ 4,296,752

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 177,005

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District's fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) are for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2003 on the assessed value listed as of the prior January 1, 2003, the lien date. Assessed values are established by state law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true values; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003 and are collected in 2004 with real property taxes.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 6 - PROPERTY TAXES - (Continued)**

2004 tangible personal property taxes are levied after April 1, 2003, on the values as of December 31, 2002. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

The full tax rate for District operations for the year ended June 30, 2004, was \$32.92 per \$1,000.00 of assessed value for operations, and \$6.00 per \$1,000.00 of assessed valuation for debt service. The assessed values of real and tangible personal property for tax year 2004 are as follows:

	<u>2003 Second- Half Collections</u>		<u>2004 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 256,586,980	72.05	\$ 265,350,490	73.11
Public utility property	51,440	0.01	54,240	0.01
Tangible personal property	<u>99,494,583</u>	<u>27.94</u>	<u>97,542,877</u>	<u>26.88</u>
Total assessed valuation	<u>\$ 356,133,003</u>	<u>100.00</u>	<u>\$ 362,947,607</u>	<u>100.00</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2004 tangible personal property tax settlement was not received until July of 2004.

The Butler County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amounts available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$635,857 in the general fund and \$787,868 in the debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$1,059,155 in the general fund and \$757,384 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities**

Taxes	\$ 10,939,129
Accounts	321
Intergovernmental	54,293
Accrued interest	<u>3,876</u>
<b>Total</b>	<b><u>\$ 10,997,619</u></b>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
<i>Capital assets, not being depreciated:</i>				
Land	\$ 183,689	\$ -	\$ -	\$ 183,689
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets, not being depreciated</b>	<b><u>183,689</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>183,689</u></b>
<i>Capital assets, being depreciated:</i>				
Land improvements	460,607	61,830	-	522,437
Buildings and improvements	33,549,010	605,065	-	34,154,075
Furniture and equipment	1,107,907	130,067	-	1,237,974
Vehicles	<u>1,204,621</u>	<u>72,074</u>	<u>-</u>	<u>1,276,695</u>
<b>Total capital assets, being depreciated</b>	<b><u>36,322,145</u></b>	<b><u>869,036</u></b>	<b><u>-</u></b>	<b><u>37,191,181</u></b>
<i>Less: accumulated depreciation</i>				
Land improvements	(65,697)	(16,404)	-	(82,101)
Buildings and improvements	(7,107,903)	(1,005,578)	-	(8,113,481)
Furniture and equipment	(799,521)	(73,428)	-	(872,949)
Vehicles	<u>(529,264)</u>	<u>(61,487)</u>	<u>-</u>	<u>(590,751)</u>
<b>Total accumulated depreciation</b>	<b><u>(8,502,385)</u></b>	<b><u>(1,156,897)</u></b>	<b><u>-</u></b>	<b><u>(9,659,282)</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 28,003,449</u></b>	<b><u>\$ (287,861)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 27,715,588</u></b>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 994,604
Special	701
Support Services:	
Pupil	940
Instructional staff	20,686
Administration	11,518
Fiscal	182
Operations and maintenance	18,428
Pupil transportation	66,335
Extracurricular activities	29,445
Food service operations	<u>14,058</u>
Total depreciation expense	<u><u>\$ 1,156,897</u></u>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In a prior year, the District entered into a capitalized lease for exercise equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of exercise equipment have been capitalized in the amount of \$155,787. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$51,999 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2005	\$ <u>55,400</u>
Total minimum lease payments	55,400
Less amount representing interest	<u>(1,217)</u>
Total	<u><u>\$ 54,183</u></u>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LEASE - PURCHASE AGREEMENT**

On June 30, 2004, the District entered into a \$439,000 lease-purchase agreement with Columbus Regional Airport Authority to finance the construction, enlarging or other improvement, furnishing and equipping, lease and eventual acquisition, of various building improvements on District sites. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2004, the District made \$0 in principal payments and \$0 in interest payments on the lease-purchase agreement.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2004.

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2005	\$ 27,475
2006	50,326
2007	48,877
2008	48,416
2009	47,904
2010 - 2014	237,548
2015 - 2017	<u>138,998</u>
Total	599,544
Less amount representing interest	<u>(160,544)</u>
Present value of minimum lease payments	<u>\$ 439,000</u>

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. The District's long-term obligations during the year consist of the following:

	Interest Rate	Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>						
<u>General Obligation Bonds:</u>						
Improvement bonds	4.98%	\$ 17,409,743	\$ -	\$ (525,000)	\$ 16,884,743	\$ 575,000
Refunding bonds	4.98%	<u>6,528,833</u>	<u>-</u>	<u>(555,000)</u>	<u>5,973,833</u>	<u>580,000</u>
Total general obligation bonds payable		<u>\$ 23,938,576</u>	<u>\$ -</u>	<u>\$ (1,080,000)</u>	<u>\$ 22,858,576</u>	<u>\$ 1,155,000</u>
<u>Other Long-Term Obligations:</u>						
Capital lease obligation		\$ 106,182	\$ -	\$ (51,999)	\$ 54,183	\$ 54,183
Compensated absences		1,095,548	45,505	(104,020)	1,037,033	87,029
Lease-purchase obligation		<u>-</u>	<u>439,000</u>	<u>-</u>	<u>439,000</u>	<u>16,000</u>
Total other long-term obligations		<u>\$ 1,201,730</u>	<u>\$ 484,505</u>	<u>\$ (156,019)</u>	<u>\$ 1,530,216</u>	<u>\$ 157,212</u>
Total governmental activities		<u>\$ 25,140,306</u>	<u>\$ 484,505</u>	<u>\$ (1,236,019)</u>	<u>\$ 24,388,792</u>	<u>\$ 1,312,212</u>

Improvement Bonds: The District issued general obligation bonds on May 27, 1999, to make major improvements and additions to three of the District's facilities. These bonds will be retired from the debt service fund with revenue generated from a 6.25 mill bonded debt levy.

Refunding Bonds: The District issued general obligation bonds on May 27, 1999, to advance refund the callable portion of the Series 1991 School Improvement Bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the basic financial statements. These bonds will be retired from the debt service fund with revenue generated from a 6.25 mill bonded debt levy. The principal balance of the general obligation refunded bonds at June 30, 2004, was \$5,973,833.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid. Compensated absences are presented net of actual increases and decreases.

Lease Purchase Obligation: The lease purchase obligation will be paid from the general fund. See Note 10 for details.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

Year Ended	Refunding Bonds			Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 580,000	\$ 239,760	\$ 819,760	\$ 575,000	\$ 773,133	\$ 1,348,133
2006	605,000	215,980	820,980	595,000	749,558	1,344,558
2007	625,000	190,570	815,570	620,000	724,568	1,344,568
2008	655,000	163,695	818,695	650,000	697,908	1,347,908
2009	685,000	134,875	819,875	655,000	669,308	1,324,308
2010 - 2014	2,552,746	889,124	3,441,870	2,944,163	4,443,730	7,387,893
2015 - 2019	271,087	783,913	1,055,000	3,170,580	4,166,346	7,336,926
2020 - 2024	-	-	-	5,335,000	1,477,179	6,812,179
2025 - 2026	-	-	-	2,340,000	178,500	2,518,500
Total	<u>\$ 5,973,833</u>	<u>\$ 2,617,917</u>	<u>\$ 8,591,750</u>	<u>\$ 16,884,743</u>	<u>\$ 13,880,230</u>	<u>\$ 30,764,973</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$12,581,799 (including available funds of \$2,775,090), an unvoted debt margin of \$362,948, and an unvoted energy conservation debt margin of \$3,266,528.

**NOTE 12 - RISK MANAGEMENT**

- A.** The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District purchased commercial coverage for property and general liability insurance, including boilers and machinery valued at \$71,195,904 with a \$1,000,000 single occurrence limit and a \$1,000 deductible.

Professional liability is protected by the Selective Insurance Company of South Carolina with a \$4,000,000 annual aggregate/\$2,000,000 single occurrence limit and a \$1,000 per claim deductible. Vehicles are covered by Selective Insurance Company of South Carolina and hold a \$500 deductible for comprehensive and a \$500 deductible for collision.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2003.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 12 - RISK MANAGEMENT - (Continued)**

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**B. OSBA Group Workers' Compensation Rating Program**

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$492,142, \$454,300, and \$408,046, respectively; 42.09% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$284,988 represents the unpaid contribution for fiscal year 2004.

**EDGEWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,745,947, \$1,602,633, and \$1,494,189, respectively; 82.61% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$303,592 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$6,783 made by the District and \$12,998 made by plan members.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$124,710 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$234,439 during the 2004 fiscal year.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 326,042
Net adjustment for revenue accruals	(421,503)
Net adjustment for expenditure accruals	(903,614)
Net adjustment for other sources/uses	532,963
Adjustment for encumbrances	<u>130,829</u>
GAAP basis	<u>\$ (335,283)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - CONTINGENCIES - (Continued)**

**B. Litigation**

The District has lawsuits outstanding, but management does not believe that potential losses, if any, will be material to the financial statements.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Balance as of June 30, 2003	\$ (274,482)	\$ (17,146,398)	\$ 123,223
Current year set-aside requirement	449,472	449,472	-
Qualifying disbursements	<u>(731,710)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (556,720)</u>	<u>\$ (16,696,926)</u>	<u>\$ 123,223</u>
Balance carried forward to FY 2005	<u>\$ (556,720)</u>	<u>\$ (16,696,926)</u>	<u>\$ 123,223</u>

The District had offsets and qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

The negative carry over for capital acquisition from the previous fiscal year is a result of debt proceeds for the construction and renovation of school buildings. The resulting negative balance may be carried forward to reduce the requirements for qualifying disbursements in future years.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	<u>\$ 123,223</u>
Total restricted assets	<u>\$ 123,223</u>

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**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550		\$ 112,067		\$ 102,787
National School Breakfast Program	05-PU-03/04	10.553	\$ 40,615		\$ 40,615	
National School Lunch Program	LLP4-03/04	10.555	200,679		200,679	
Child and Adult Care Food Program	CCMO-04	10.558	528		528	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>241,822</u>	<u>112,067</u>	<u>241,822</u>	<u>102,787</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SD-03-P	84.027	34,237		47,355	
	6B-SD-04-P		23,536		19,889	
	6B-SF-04		361,460		374,281	
Total Special Education Grants to the States			<u>419,233</u>		<u>441,525</u>	
Special Education - Preschool Grant	PG-D7-03-P	84.173	1,525		1,525	
	PG-S1-04		3,246		3,246	
			4,771		4,771	
Total Special Education Cluster			<u>424,004</u>		<u>446,296</u>	
Title I, Part A, CSEA	C1-S1-03	84.010	8,036		30,194	
	C1-S1-04		135,983		131,557	
			144,019		161,751	
Drug Free Schools Grant	DR-S1-03	84.186	972		3,015	
	DR-S1-04		13,118		11,003	
Total Drug Free Schools Grant			<u>14,090</u>		<u>14,018</u>	
Innovative Education Program Strategies	C2-S1-03	84.298	3,011		4,400	
	C2-S1-04		18,432		18,432	
Total Innovative Education Program Strategies			<u>21,443</u>		<u>22,832</u>	
Technology Literacy Challenge Fund Grant	TJ-S1-04	84.318	2,806		2,806	
Assistive Technology Infusion Grant	AT-S2-02	84.352A	(63)		64	
	AT-S3-02		(485)		485	
Total Assistive Technology Infusion Grant			<u>(548)</u>		<u>549</u>	
Improving Teacher Quality State Grant (Title II)	TR-S1-03	84.367	15,185		15,517	
	TR-S1-04		58,163		60,594	
			73,348		76,111	
Learn & Serve America	SV-S3-02	94.004	(975)		1,465	
Total Department of Education			<u>678,187</u>		<u>725,828</u>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Community Alternative Funding System (CAFS)		93.778	82,950		82,950	
Total U.S. Department of Health and Human Services			<u>82,950</u>		<u>82,950</u>	
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>						
<i>Passed through the State Library of Ohio</i>						
Library Services and Technology Act	III-17-03	45.310	96,192		96,123	
Total Institute of Museum and Library Services			<u>96,192</u>		<u>96,123</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$1,099,151</b></u>	<u><b>\$112,067</b></u>	<u><b>\$1,146,723</b></u>	<u><b>\$102,787</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2004**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -- FOOD DISTRIBUTION, CFDA# 10.550**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2004, the District had food commodities in inventory.

**NOTE C -- MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D --REFUND OF LEARN AND SERVICE AMERICA GRANT, CFDA# 94.004**

During the audit period the District refunded \$975 of SV-S3-02 Learn and Serve America Grant to the Ohio Department of Education due to the expiration of the period of availability. The accompanying schedule of federal awards expenditures has been modified to reflect this refund.

**NOTE E -- REFUND OF ASSISTIVE TECHNOLOGY INFUSION FUNDS, CFDA# 84.352A**

During the audit period the District refunded \$63 of AT-S2-02 and \$485 of AT-S3-02 to the Ohio Department of Education due to the expiration of the period of availability. The accompanying schedule of federal awards expenditures has been modified to reflect the refunds as a reduction of cash receipts.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Edgewood City School District  
Butler County  
3500 Busenbark Road  
Trenton, Ohio 45067

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Edgewood City School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 19, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

May 19, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Edgewood City School District  
Butler County  
3500 Busenbark Road  
Trenton, Ohio 45067

To the Board of Education:

#### Compliance

We have audited the compliance of Edgewood City School District, Butler County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Edgewood City School District, Butler County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. In a separate letter to the District's management dated May 19, 2005 we reported a matter related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

May 19, 2005

**EDGEWOOD CITY SCHOOL DISTRICT  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA#s: 84.027 & 84.173.
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2004-001**

**REPORTABLE CONDITION**

The District did not maintain a computerized or manual listing of capital assets additions and disposals during the fiscal year. Manual researching of selected object codes of the District's accounting system by the Auditor of State's Office was used to identify additions to the District's fixed assets inventory. Furthermore, additions during the year did not get tagged for identification. The lack of maintaining additions to and disposals from the asset system will decrease the District's ability to safeguard its capital assets.

We recommend that the additions be identified and tagged as well as recorded into the asset system. The District should use asset addition forms as well as asset disposal forms to account for the changes to the inventory system. This procedure will improve control over the District's property by decreasing the risk of loss and misappropriation. Timely, periodic maintenance of such information would also assist the District in maintaining adequate insurance coverage, as well as provide supporting evidence in the case of theft or fire loss.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



**Auditor of State  
Betty Montgomery**

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**EDGEWOOD CITY SCHOOL DISTRICT**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 9, 2005**